



## A co-operative business approach in a values-based supply chain: A case study of a beef co-operative



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### ABSTRACT

The industrialisation of the agri-food sector has enabled power imbalances to emerge in the supply chain that tend to disfavour farmers. Exposure to price volatility, stemming from these power imbalances, is a key threat to family farm viability. Farmers have utilised co-operatives to redress these power imbalances and enhance viability. Separately, values-based supply chains (VBSCs) have emerged as an alternative to commodity-based supply chains, embodying values of sustainability, equity, fair pricing and transparency. Similarly, co-operatives embody these values and are adaptable business models that represent a good fit for integration to VBSCs. A qualitative case-study of a beef cooperative, integrated to a VBSC, is presented. This aimed to understand, from members' perspectives, how the theoretical 'fit' between cooperatives and VBSC's translates in practice, focusing on the central role and importance of co-operative members. VBSCs and co-operatives aim to promote fair and equitable governance structures. However, findings indicated that responsiveness of the beef co-operative to customer preferences supported dynamics where non-member partners exerted significant influence over internal co-operative functions. This, in turn, had implications for the co-operative and threatened its sustainability. While VBSCs and co-operatives share many principles and ambitions, co-operative success is dependent on balancing relationships and maintaining co-operative values.

### 1. Introduction

The agricultural sector is inextricably linked with key societal, economic and environmental concerns, including food security, rural sustainability, food provenance, environment and climate change. Within the sector, the family farm model has a central presence (Macken-Walsh, 2011; McDonagh, 2013; Shucksmith and Rønningen, 2011). However, the challenge of maintaining viability represents a key threat to the sustainability of the family farm model. The marketing of commodities at a global level inevitably exposes farmers to price fluctuations and market volatility, with implications potentially arising for the long-term sustainability and viability of their farm enterprises (Hazell, 2005; Lipton, 2006; Lyson, Stevenson, & Welsh, 2008). The industrialisation of agri-food has led to a “fracture between the consumers of food... and the traditional producers of foodstuffs, the farmers... [as well as a shift in the] locus of added value ... away from the farm...to the larger food-processing and retail sector” (Ilbery, Morris, Buller, Maye, & Kneafsey, 2005, p. 116–117). A growing consumer movement towards reconnecting food with place and producer (Brunori, 2007; Goodman, 2003; Ilbery et al., 2005; Murtagh, 2010) has

emerged in response – as evidenced by, for example, the popularity of farmers' markets (Carson, Hamel, Giarrocco, Baylor, & Mathews, 2016; Moroney, Briscoe, McCarthy, O'Shaughnessy, & Ward, 2009), the emergence of community supported agriculture initiatives (Krul and Ho, 2017) and the naming of local suppliers on restaurant menus (Lerman, 2012). For family farms, this suggests an alternative to global commodity supply chains. In particular, values-based supply chains (VBSCs), which differentiate products according to specific environmental, ethical, locational, or other attributes (Lerman, 2012), may facilitate farmers' access to these premium markets. Many of the differentiated attributes of food products marketed through these chains are closely aligned with the socio-cultural values associated with family farming (McDonagh, 2013; Shucksmith and Rønningen, 2011) and with the co-operative business model (ICA, 2016a,b).

Co-operatives, in particular, have been identified as a linking device between 'farm' and 'fork' by reducing farmers' dependence on the 'middleman' within the agri-food economy and by creating mechanisms for more equitable division of profits (Lyson et al., 2008) as well as building a more innovative agri-food sector. Few co-operatives operate within the beef sector in Europe, although they have an established

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presence in the United States where, as part of the ‘Agriculture of the Middle movement’ (AotM), they are integrated into VBSCs. The AotM movement seeks to address the viability challenges experienced by the ‘middle farms’ that are not large enough to supply the commodity markets, yet are too large and conventional to compete in the smaller direct markets (Fleury, Lev, Brives, Chazoule, & Désolé, 2016; Kirschenmann, 2012; Lyson et al., 2008). VBSCs were developed to allow middle farms to create economies of scale, through a co-operative, for instance, and create a differentiated value-added product destined for the premium markets. In addition to this, in order to gain market access, such co-operatives form strategic relationships with other supply chain participants of similar values and target markets (Fleury et al., 2016; Hooks, Macken-Walsh, McCarthy, & Power, 2017; Lyson et al., 2008), hence they are networked into a VBSC.

Such values-based products are branded according to the characteristics of the producers, such as their identities (e.g. family farms) and regional provenance of their produce (Barlett, 2017; Fleury et al., 2016; Hooks et al., 2017; Kirschenmann, 2012; Lyson et al., 2008; Peterson, Feenstra, Ostrom, & Tanaka, 2017; Stevenson et al., 2011). This facilitates the producers themselves, rather than their intermediaries, to own and benefit economically from brands. The assumption is that the brand becomes well established and is specifically sought by consumers, making it less vulnerable to displacement, ‘undercutting’ and competition (Beverland, 2007; Kirschenmann, 2012; Lyson et al., 2008). Branded produce, in particular, is aimed at higher value markets where consumers are willing to pay a premium for differentiated produce that benefits producers directly (Little, Maye, & Ilbery, 2010; Merel, Saitone and Sexton (2009); Schindler, 2012). assert that the produce of farmer-owned co-operatives is often appealing for consumers who prefer to see farmers, especially local farmers, benefit directly from food purchases.

This paper examines a co-operative as part of a functioning VBSC. In particular, this paper aims to understand how participation in a VBSC may impact on the co-operative’s relationship with its members. The paper starts from the premise that based on inherent values, the co-operative model and the VBSC represent a good fit for enhancing values-based approaches. By adopting a case study approach, we seek to interrogate this assumption and identify the possible pitfalls encountered, particularly from the perspective of the co-operative members. The paper is organised by firstly reviewing the different types of food supply chains focusing in more detail on VBSCs and hypothesising how co-operatives fit into and may benefit from these values-based markets. Secondly, we focus on the role and importance of the member in a functioning co-operative. The latter sections introduce the methodology and findings of the case study and discuss the implications arising from the case study for our understanding of co-operatives in VBSCs.

## 2. Values-based supply chains and co-operatives

### 2.1. Food supply chains: supply chains and values-based supply chains

Food chains can be classified as ‘supply chains’ and ‘values-based supply chains’, often more widely known as ‘value chains’ (Stevenson and Pirog, 2008). Each classification incorporates different strategies, values and principles. The supply chain can be defined as involving all organisations and activities associated with the transformation of goods from raw materials to end products utilised by the consumer (Stevenson et al., 2011). In particular, the supply chain is characterised by a wide diversity of actors in which large, medium and small enterprises operate simultaneously either as competitors, suppliers or customers. Generally, undifferentiated commodity products, that are often mass produced, are associated with these supply chains (Stevenson and Pirog, 2008). The value chain, or VBSC as it is similarly known, emerged as an alternative to the conventional supply chain approach (Burmeister, 2017; Barlett, 2017; Peterson et al., 2017). By definition,

VBSCs are characterised by long-term networks of business partners who seek to create “strategic alliances” and maximize value for all partners in the chain (Stevenson and Pirog, 2008, p. 120). Key characteristics of VBSCs relate to economies of scale and dealing with produce that is value added and targeted at premium markets; each actor in the chain is considered a partner, rather than the usual vendor-buyer relationship that dominates in the conventional supply chain approach; emphasis is also placed on high levels of trust, transparency and shared values and vision; and there is a commitment to the welfare of all partners in the chain including fair wages and profit margins for all in the chain (Stevenson and Pirog, 2008, p. 120).

There have been certain developments that have led to the creation of these alternative chains including contractual arrangements for produce, increased importance of collaboration within the supply chain and greater demand for differentiated or specialised produce (Young and Hobbs, 2002). This emergence of alternative food products ties largely to a growing awareness among consumers that their purchasing behaviour can have a direct impact on the agricultural environment (Laroche, Bergeron, & Barbaro-Forleo, 2001). These advancements have encouraged this paradigm shift away from commodity production towards food which incorporates varying attributes for niche markets (Young and Hobbs, 2002). The rapid growth of economies in the developed world, along with continuous improvement of living standards, has increased individuals’ disposable income. This, combined with increasing environmental awareness, has stimulated demand for more ‘green agricultural products’ (Renting, Marsden, & Banks, 2003; Ilbery and Maye, 2005). These products are differentiated by having certain characteristics or credence attributes including ‘organic’, ‘grass fed’, ‘locally sourced’, ‘environmentally friendly’, and ‘animal welfare friendly’ (Burmeister, 2017; Peterson et al., 2017; Stevenson et al., 2011). The values-based approach, in particular, is determined by consumer demand and responds to these elements through the creation of alternative food production which targets ‘ethical consumers’ who tend to spend within their value system (Feller, Shunk, & Callarman, 2006; Little et al., 2010). The direct link created from producer to consumer in these alternative chains is said to create a “stronger attachment of products to their place of origin, will have beneficial outcomes for the food system as a whole, which includes reinvigorating consumer confidence in what they buy” (Little et al., 2010, p. 1797). The development of these alternative food markets has allowed for a higher emphasis on traceability where there is a seamless flow of information between the various actors within the chain and shared trust among actors (Fischer et al., 2010; Young and Hobbs, 2002). Additionally, product differentiation not only creates a unique, quality product for the consumer but also allows the producer to reduce price-based competition. By enhancing product quality aspects through differentiation, the producer is competing on quality aspects and not the price ‘race to the bottom’ associated with the commodity markets (Young and Hobbs, 2002). In whatever route a farmer chooses, commodity or differentiated, the fact remains that, in accessing these markets, different approaches apply as do different ways of doing business. Regardless, the involvement of a large number of small-scale producers makes governance in the agri-food sector complex and there is a preference towards more stable networks for supply chain integration (Danse and Vellema, 2007).

### 2.2. Co-operatives in values-based supply chains

Co-operatives are often set up to promote and safeguard the less powerful members of society be they consumers, producers, workers or other stakeholders (McCarthy, Briscoe, & Ward, 2010). They manifest themselves in particular contexts, usually in response to certain stimuli, for example market failures, and set out to achieve specific objectives and goals as defined by the membership (Briscoe et al., 1982). They are also often viewed as part of a social movement in pursuit of economic democracy and social justice and share a bond based on shared values

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